DESTINY RESOURCE SERVICES CORP.

2004 Annual Report

For the Year Ended December 31, 2004

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CORPORATE PROFILE

Destiny provides Seismic Front-End Services comprised of seismic survey and mapping (Wolf Survey & Mapping), seismic line clearing (Destiny Resources) and shot-hole drilling (Double R Drilling) to energy explorers and producers and to seismic acquisition companies. Destiny provides navigation, positioning and assets management technology to improve the productive and safety of seismic operations through its Kodiak Nav Solutions division.

Common shares of Destiny Resource Services Corp. trade on The Toronto Stock Exchange under the ticker symbol DSC.

The Annual General Meeting of Shareholders of Destiny Resource Services Corp. will be held on Tuesday, May 10, 2005 at 3:00 p.m. (Calgary time) in the Nakiska Room at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. The Management Information Circular, Notice of Meeting and Form of Proxy are being mailed to each shareholder with this Annual Report. Shareholders who are unable to attend the Meeting are requested to complete and return the Form of Proxy to Valiant Trust Company, Suite 310, 606 4th Street SW, Calgary, Alberta T2P 1T1 at their earliest convenience.

FINANCIAL HIGHLIGHTS

The following table highlights certain financial information of the Company's continuing operations for the years ended December 31, 2004 and 2003:

(000's, except per share and share amounts)		Year ended December 31	
	2004	2003	Change
	$	$	%
Revenue	33,630	28,057	+20
Gross margin	4,085	3,259	+25
EBITDA(1)	2,870	2,204	+30
Income (loss) from continuing operations	943	(1,140)	N/A
Per share – basic and diluted	0.02	(0.02)	N/A
Income from discontinued operations	403	1,074	-62
Per share – basic and diluted	0.01	0.02	-50
Net income (loss) for the period	1,347	(126)	N/A
Per share – basic and diluted	0.03	0.00	N/A
Capital expenditures(2)	1,707	1,075	+159
Weighted average shares outstanding *(000's)*	52,856	52,711	.3
Total assets	11,391	16,910	-33
Long-term debt (including current portion)	0	10,618	-100
Shareholders' equity	7,845	(699)	N/A
Book value per share outstanding	0.07	(0.01)	N/A

(1) EBITDA is provided to assist investors in determining the ability of Destiny to generate cash from operations and is calculated from the consolidated statement of income as gross margin less general and administrative expenses. This measure does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

(2) Capital expenditures shown here relate to the Company's continuing operations only.

LETTER TO SHAREHOLDERS

Fellow Shareholders,

2004 was a year of significant progress for Destiny. The groundwork laid in 2004, together with activity so far in 2005, have us further energized and comforted as to this Company's future.

Accomplishments in 2004 include:

Operational

- We continued to expand the client base for each of our businesses
- We enhanced our reputation as a provider of safe, quality services
- We solidified a commitment from a client for work in the Canadian Arctic for 2005
- We made the largest non-military purchase of GPS equipment from Leica and successfully deployed that equipment
- We acquired additional capacity for our Line-Clearing business and successfully deployed that equipment
- We set the stage for the entry of our Wolf Survey & Mapping business into the United States

Financial and Structural

- We completed the disposition of non-core businesses begun in 2003
- We placed new term debt as required for the on-going businesses
- We entered into a new commercial banking relationship, providing smoother access to capital at a low cost
- We paid down the amount owing on the 1999 debentures and restructured the payment obligations thereon
- We determined to reduce the cash required for debt service and pay cash dividends to the shareholders
- The Board of Directors established a dividend policy
- Shareholders voted in favour of a rights issue and share consolidation
- We undertook an equity offering by way of a rights issue and on December 30 successfully closed this financing
- We used the proceeds from the rights issue to retire all term debt of the Company
- We were introduced to the opportunity to acquire Kodiak Nav Solutions, which we completed in January 2005

The above lists are significant. Our Company made much progress in 2004. That said, we are only modestly satisfied with the final bottom line results for the year. Our business segment was active without being particularly robust and our operations and profitability were very much affected, in the three final quarters of the year, by adverse weather conditions.

Outlook for 2005

2005 is starting strong and we believe will be a good year for Destiny. Items worthy of note are:

- On January 27 we acquired Kodiak Nav Solutions. This business adds business lines, synergies, technology and further management skills to Destiny. We are encouraged by all early signs with respect to this $2 million transaction and are delighted to have Steve Matthews, Jim McLellan and their team as part of Destiny.
- Each of our three businesses pre-Kodiak (Wolf Survey & Mapping, Destiny Line Clearing and Double R Drilling) have had strong first quarters (so far) and are seeing signs for a very active year
- We have expanded our equipment base with the purchase of additional mulchers for the Line Clearing division and are planning to add to our capacity in Wolf Survey & Mapping, Double R Drilling and Kodiak Nav Solutions. Present plans call for significant capital expenditures for Destiny in 2005, with a large percentage attributable to capacity expansion.
- We are actively pursuing our initiative to do business (and make money) in the US. We expect the amount of revenue generated south of the border to be decent this year and meaningful in the near term.
- To effect expansion in existing businesses and in the US, we have asked each of Joe Pilieci (Wolf Survey & Mapping) and Murray Leier (Destiny Line Clearing) to take on greater responsibilities within their businesses and have asked Warren Plue to accept responsibility for the establishment and growth of survey and mapping in the

US (in addition to other responsibilities). Jim Holt will continue to lead Double R Drilling, including its Arctic operations and joint venture and the focus and expansion of our seismic drilling business.

- We are instituting a profit sharing plan for our Operations Team and for our Executive Management Team wherein a portion of bottom line earnings, after a priority return to shareholders, will be available for high performing individuals. One-half of each award under these plans will be paid in cash and one-half in shares of Destiny that will be purchased in the market.
- We are searching for a Chief Financial Officer / Controller to round out our Executive Management Team
- Our Board of Directors has approved the payment on March 31, 2005 of a dividend of $0.01 per share to shareholders of record on March 29, 2005
- Our Board of Directors has approved the consolidation of the outstanding shares, effective April 1, 2005, on the basis of 20 “old” shares for 1 “new” share”

There are many good things happening at Destiny. None of them are possible without the effort, commitment and dedication of the men and women in the field and in our offices. Once again, on behalf of the shareholders, I express our gratitude to every one of them.

On behalf of the Board of Directors,

Bruce R. Libin, Q.C.
Executive Chairman and
Chief Executive Officer

2004 ANNUAL REPORT

FOR THE YEAR-ENDED DECEMBER 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2004 RESULTS OF OPERATIONS AND SELECTED FINANCIAL INFORMATION

The following discussion and analysis of financial results for the year ended December 31, 2004 is based on information available until March 17, 2005 and should be read in conjunction with the Company's consolidated financial statements and related notes contained in this Annual Report.

Certain statements included in this Management's Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known (see "Business Risks") and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results implied by such forward-looking statements.

Non-GAAP Measurements: The MD&A contains the terms Earnings Before Interest, Taxes and Depreciation and Amortization ("EBITDA"), "cash flow from operations" and "operating cash flow" which should not be considered an alternative to, or more meaningful than "net income" or "cash flow from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Company's financial performance. These terms do not have any standardized meaning as prescribed by GAAP and therefore, the Company's determination of EBITDA, cash flow from operations or operating cash flow may not be comparable to that reported by other companies. The reconciliation between net income and cash flow from operations or operating cash flows can be found in the consolidated statements of cash flows in the consolidated financial statements. EBITDA is calculated from the consolidated statement of operations as gross margin less general and administrative expenses. The Company evaluates its performance based on EBITDA and cash flow from operations. The Company considers cash flow from operations and EBITDA to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends and to fund future capital investment.

OVERALL PERFORMANCE

December 31, 2004 marked a milestone for Destiny – the Company exited the year with no long-term debt and with no bank borrowings outstanding. The Company entered 2005 with a strong balance sheet, a solid group of profit and cash flow generating operations (including Kodiak Nav Solutions acquired in January 2005) and the ability to commence paying shareholders quarterly dividends.

During 2004, the Company determined to reduce the amount of cash utilized for debt service and to adopt a dividend policy aimed at distributing cash generated by the business in excess of requirements for running the business to the shareholders. As a consequence, an equity issue by way of a Rights Offering was undertaken. Shareholders were offered the right to subscribe, for every share they held, for one additional share for $0.14. The issue was fully subscribed and on December 30, 2004, Destiny issued 52,711,309 common shares for gross proceeds of $7.38 million. Proceeds from the Rights Offering together with proceeds from sales of businesses and the placement early in the year of new term debt enabled Destiny to retire $17.1 million of term debt and obligations during the year and end the year with no long-term debt.

Operating results for 2004 were satisfying in that the Company was able to exceed its base budget despite the impact during each of the final three quarters of the year of adverse weather. Total revenues for 2004 rose 20% to $33.6 million vs $28.1 million for 2003. Income from continuing operations was $0.9 million compared to a loss of $1.1 million the prior year. Net income was $1.3 million ($0.03 per share) compared to a loss of $0.1 million ($0.00 per share) in 2003.

The positive cash flows from 2004 operations, together with the 2003 reorganization and the 2004 Rights Offering transactions, have significantly improved the financial position of the Company. The Company believes it is well positioned and focused to take advantage of the opportunities available in its marketplace. In addition, the acquisition of Kodiak Nav Solutions adds to the services the Company offers within its business segment and provides further technological advantages to existing operations. The Company expects to commence in 2005 to pay dividends on its Common Shares.

SELECTED FINANCIAL INFORMATION

The following table highlights certain financial information of the Company's continuing operations for the three months and years ended December 31, 2004 and 2003:

(000's, except per share and share amounts)	Three months ended December 31 **2004**	2003	Year ended December 31 **2004**	2003
Revenue	7,431	5,837	33,630	28,057
Direct expenses	7,011	5,074	29,545	24,798
Gross margin	419	763	4,085	3,259
EBITDA	46	240	2,870	2,204
Income (loss) from continuing operations	(421)	(1,215)	943	(1,140)
Per share – basic and diluted	(0.01)	(0.02)	0.02	(0.02)
Income from discontinued operations	71	238	403	1,074
Per share – basic and diluted	0.00	0.00	0.01	0.02
Net income (loss) for the period	(349)	(977)	1,347	(126)
Per share – basic and diluted	(0.01)	(0.02)	0.03	0.00
Capital expenditures(1)	322	649	1,707	1,075
Weighted average shares outstanding *(000's)*	53,284	52,711	52,856	52,711
Total assets			11,391	16,910
Shareholders' equity			7,845	(699)
Book value per share outstanding			0.07	(0.01)

(1) Capital expenditures shown here relate to the Company's continuing operations only.

RESULTS OF OPERATIONS

The following analysis of the Company's results of operations refers to both the years ended December 31, 2004 ("2004") and December 31, 2003 ("2003") as well as the three months ended December 31, 2004 (Q4-04") and December 31, 2003 ("Q4-03").

Please note that the analysis pertains to the Company's continuing operations of Seismic Front-End Services. Excluded from the analysis is the activity of the following businesses that have been classified in the 2003 consolidated financial statements as discontinued operations:

Surface Preparation
- Battle River Oilfield Construction

Post-Drilling Construction
- McConnell Welding & Construction
- Big Foot Metal Systems
- Team Pipeline

REVENUE

Revenue for 2004 was $33.6 million, a $5.6 million or 20% increase from the $28.0 million recorded during 2003. This increase in revenue is attributable to:

- a $2.8 million increase in the revenue recorded by the Company's line clearing division in the third quarter of 2004 compared to the third quarter of 2003. During 2003, line clearing revenue was negatively impacted as a result of much of the line clearing work being performed in north eastern British Columbia where the Company's clients often support line clearing work being contracted to First Nations companies. During 2004 the Company was successful in being awarded significant contracts in Alberta.

- A slight increase in overall industry activity.
- Increased heli-portable seismic drilling activity throughout the first quarter of 2004 combined with favourable project scheduling which reduced the number of days that drilling equipment was idle.
- Successful marketing efforts have resulted in an increase in market share in the Company's survey & mapping and seismic drilling divisions.

Revenue for Q4-04 was $7.4 million, a $1.6 million or 27% increase from the $5.8 million for Q4-03. The increase is attributable to higher levels of industry activity and less disruption by adverse weather conditions in 2004 as compared to 2003.

Gross Margin

For 2004 gross margin increased to $4.1 million, a $0.8 million or 25% increase from the $3.3 million in 2003. The overall increase in the 2004 gross margin is attributed primarily to the following factors:

- A 20% increase in revenue in 2004.
- Improved field efficiency in the Company's survey & mapping division.
- Lower operating costs in the Company's seismic line clearing division achieved through decreased use of higher cost subcontractors and rented equipment.
- Improved field efficiency in the Company's shot-hole drilling division resulting from initiatives implemented by this division's management whose tenure is now into its second winter season.
- The Company altering its cost structure so that a greater portion of direct expenses are variable as opposed to fixed which results in a reduction in overall costs.

For Q4-04, gross margin was $0.4 million, a $0.4 million or 45% decrease from the $0.8 million for Q4-03. Although revenue increased by 27% for Q4-04 vs Q4-03, the margin for the period decreased due to the mix of projects involved. In addition, Q4-04 results were negatively impacted by the payment of bonuses to administrative, operations and management personnel which had not been accrued during the year. For 2005, the Company is introducing profit sharing plans for its operations and management leadership, the expense for which will be accrued on a monthly basis.

General and Administrative Expenses

General and administrative expenses, which represent primarily the costs associated with the corporate head office and the lease of the survey & mapping division's shop and office, totalled $1.2 million for 2004 compared to $1.1 million for 2003.

For analytical purposes the best comparison is to "total" general and administrative expenses, which for 2003 was the total of the amounts allocated between continuing operations and discontinued operations, which totalled $1.2 million. Using this comparison, the decrease from 2003 to 2004 in total corporate office costs was $0.4 million or 33% which was achieved through the elimination of certain costs made possible by the recent downsizing of the Company. The Company expects that general and administrative expense will be approximately $1.4 million for fiscal 2005, including the impact of the profit sharing plans being implemented.

G&A expense for Q4-04 was $0.4 million compared to $0.5 million for Q4-03.

Amortization of Property & Equipment

Amortization expense was $1.2 million in 2004 compared to $1.3 million in 2003. The total is not necessarily comparable year over year however, as it will be a function of the timing of purchases of new property and equipment, and any related disposals. Amortization expense for Q4-04 was similarly $0.3 million compared to $0.4 million for Q4-03. With purchases of new equipment undertaken and planned, the Company expects that depreciation and amortization expense will be approximately $2.4 million for fiscal 2005.

Gain (Loss) on Disposal of Capital Assets

The Company reported a gain on the sale of capital assets of $0.1 million arose in both 2004 and 2003. These gains represent the normal course disposal of capital assets.

Interest Expense

Total interest expense fell to $0.8 million for 2004, a decrease of $1.6 million or 68% compared to the 2003 total of $2.4 million.

Interest expense on long-term debt and debentures was $0.7 million for 2004, a 45% decrease from the $1.2 million incurred in 2003. This decrease is due to the reduction in long-term debt and debentures that was achieved through the reorganization process.

Bank charges, operating loan and other interest expense were $0.1 million for 2004, an 82% decrease from the total of $0.4 million incurred in 2003. This significant decrease is due to:

- Lower average operating loan balances during 2004 made possible by the strong cash flow generated in the first and third quarters and by the $1.2 million supplement to working capital provided by the $3.5 million term loan issued in February 2004.
- Dramatically reducing the total interest and fees on the Company's operating loan facility by being able to move from an asset-based lender to a more conventional facility with a chartered bank.

Interest expense also includes amortization of deferred charges, which decreased from $0.8 million for 2003 to $0.1 million for 2004. The Company was able to achieve this 94% reduction through the reorganization, by either eliminating old debt of the Company, that when issued had significant associated financing fees (the balance of which was written off in 2003), or replacing the old debt with debt that has lower associated financing fees.

Interest expense for Q4-04 was $0.2 million compared to $0.8 million for Q4-03, a decrease of $0.6 million or 72% which is attributed to the much lower levels of term debt and short-term borrowings outstanding in the period.

Income Taxes

The Company was not in a taxable position in 2004 or 2003, with minor "capital" taxes and minor income tax expense related to an inactive subsidiary company being the only tax expense booked for 2004.

The Company has significant unutilized Canadian non-capital tax loss carry forwards available as at December 31, 2004, the benefit of which has not been fully recognized in the consolidated financial statements.

Summary of Quarterly Results

(000's, except per share and share amounts)	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Revenue from continuing operations	7,430	12,200	1,204	12,796	5,819	10,154	1,333	10,734
Revenue from discontinued operations	---	---	---	---	1,706	7,686	5,256	11,310
Total Revenue	7,430	12,200	1,204	12,796	7,525	17,840	6,589	22,040
Income (loss) from continuing operations	(421)	1,057	(1,437)	1,744	(1,030)	183	(1,089)	783
Income (loss) from discontinued operations	72	---	332	---	52	594	(1,078)	1,459
Income (loss) for the period	(349)	1,057	(1,105)	1,744	(977)	777	(2,167)	2,242
Basic & diluted earnings (loss) per share:								
From continuing operations	(0.00)	0.02	(0.03)	0.03	(0.02)	0.00	(0.02)	0.01
From discontinued operations	0.00	---	0.01	---	---	0.01	(0.02)	0.03
For the period	0.00	0.02	(0.02)	0.03	(0.02)	0.01	(0.04)	0.04
Basic & diluted number of shares outstanding (wtd avg 000s)	53,284	52,712	52,712	52,712	52,712	52,712	52,712	52,712

The Summary of Quarterly Results highlights the fact that the Company's business is seasonal with Q1 and Q3 traditionally being the two strongest quarters and Q2 and Q4 traditionally being the weakest quarters. The underlying causes of the seasonality are the weather and the Company being restricted from entering certain wildlife areas at certain times of the year. Revenue activity for the Company's continuing operations, by fiscal quarter, can be characterized as follows:

Revenue by quarter		*(000's)* Description of Quarterly Seasonality
Q4'04	**Q4'03**	
$7,430	$5,837	The fourth quarter is traditionally the Company's third busiest quarter as was the case in each of Q4'04 and Q4'03. The strength of the quarter is normally dependent upon prevailing weather conditions, which affect access to project areas, and the timing of client capital budget spending plans.
Q3'04	**Q3'03**	
$12,200	$10,154	The third quarter is traditionally the Company's second busiest quarter as was the case in each of Q3'04 and Q3'03. Ground conditions are normally dry and, as in the first quarter, the Company is permitted access to all of the areas in which the Company operates. The relative strength of this quarter is largely dependent on utilization rates for the Company's six heli-portable drill crews and the number of days lost due to weather conditions.
Q2'04	**Q2'03**	
$1,204	$1,333	As was the case in Q2'03, the second quarter is traditionally the Company's slowest quarter due to spring break-up. As the ground thaws regulators and landowners prohibit the company from accessing most work areas until the ground dries out and becomes passable to heavy equipment and vehicles without causing damage to the roads and land. Traditionally the roads reopen towards the end of May. The Company is further restricted from certain areas that protect various wildlife species during their migration and calving seasons which usually extend to the middle of June. While revenue is comparable between Q2'04 and Q2,03, in Q2'04 the revenue was earned primarily in April with work not resuming until July, 2004, which is in contrast to Q2'03 where spring break-up starting earlier at the end of March, 2003 with work resuming in June 2003.
Q1'04	**Q1'03**	
$12,796	$10,734	As in each of 2004 and 2003, the first quarter is traditionally the Company's busiest quarter. The ground and unpaved roads are frozen which permits the Company to access and conduct work in the areas in which the Company operates. It should be noted that an early spring thaw will reduce the amount of revenue that can be generated in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

Destiny's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment and capital to finance strategic acquisitions. Sources of funds to satisfy these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and equity markets.

The Company believes it has adequate cash generating capability, capital resources and access to capital to meet its working capital, capital expenditure and dividend requirements for 2005 and beyond.

WORKING CAPITAL

At December 31, 2004, the Company had a working capital of $2.8 million compared to $1.0 million at December 31, 2003. This $1.8 million increase in 2004 is due to such factors as:

- closing of the Rights Offering on December 30, 2004, which supplemented working capital by $1.1 million ($3.4 million cash received, less $2.3 million repayment of bank term loan)

- an increase in operating cash flow to $2.1 million in 2004, which was used to repay secured term debts, and acquire additional capital assets.

PROPERTY AND EQUIPMENT

The net book value of property and equipment is $5.0 million at December 31, 2004, a net decrease of $0.1 million compared to $5.1 million at December 31, 2003. Purchases of new property and equipment were $1.7 million for 2004, offset by amortization expense of $1.2 million and the book value of assets sold of $0.7 million. Capital additions for the 4th quarter were $1.7 million for Q4-04 compared to $1.1 million for Q4-03.

Subsequent to year end, in January 2005 the Company acquired the operating assets of Kodiak Nav Solutions Ltd. ("Kodiak") at a cost of approximately $2.0 million (of which $1.0 million was paid in the form of 5,529,000 common shares issued by the Company). Kodiak is a synergistic acquisition which will enhance the Company's use of leading edge technologies in the conduct of its projects for the seismic industry.

LONG-TERM DEBT AND DEBENTURES

The Company had three objectives in restructuring its long-term debt, a process which commenced in the first half of 2003. The objectives were to first pay down long-term debt through proceeds realized on the sale of non-core assets and businesses; second, to refinance $2.0 million of the Successor Debentures with long-term debt; and third, to consolidate its remaining long-term debt under one loan. The Company achieved all three objectives, and in 2004 was able to achieve a repayment of a total of $14.1 million of secured term-debt ($10.6 million outstanding at the end of 2003, plus $3.5 million new term debt which was issued in 2004). The main transactions which occurred in 2004 were:

- the $0.8 million of long-term debt (excluding debentures) that existed as at December 31, 2003 was repaid in January and February 2004 through regularly scheduled principal payments and the use of proceeds from the sale of the assets of Battle River Oilfield Construction.

- in February 2004, the Company issued a new variable rate term loan of $3.5 million maturing in March 2007, with minimum annual repayments of approximately $0.9 million. The proceeds of this term loan were used to repay $2.0 million of the 8% Senior Debenture, to repay $0.3 million of equipment purchase contracts, and the remaining $1.2 million used to supplement working capital. Through December 2004, this loan had been repaid by $1.2 million, leaving a balance of $2.3 million which was then paid out on the December 30 2004 closing of the Rights Offering.

- principal of $9.8 million owing as at December 31, 2003 on the Debentures was repaid through 2003, including a final payment of $3.8 million through the Debenture holder's investment in an additional 35,821,350 common shares through its participation in the Rights Offering.

DEBENTURES

The financial reorganization of the Company, which was orchestrated throughout 2003, centered on the 1999 Debenture owned by the Company's majority Shareholder, First Reserve Fund VIII, L.P. ("First Reserve"). In September 2003, the Successor Debentures (which resulted from the bifurcation of the 1999 Debenture) together with the approximately 56.21% of the Common Shares owned by First Reserve were sold to Destiny Resource Investment L.P. ("DRILP").

In December 2003, the terms of the Successor Debentures were amended, with the Company and DRILP agreeing (i) to extend the maturity of each of the Successor Debentures to July 2, 2008; (ii) for the Company to pay $2.0 million from the proceeds of the new term debt and $3.0 million from the proceeds of the sale of the Battle River heavy equipment as retirement of principal on the Senior Debenture; and (iii) to replace the formula for interim payments on each of the Successor Debentures with a requirement for semi-annual payments based on a formula that incorporates cash flow from operations, proceeds of disposition of assets, capital expenditures and term debt principal payments.

The amount outstanding on the Successor Debentures decreased from $9.8 million as at December 31, 2003 to $3.8 million as at September 30, 2004 following the $5.0 million repayments of principal referred to above that took place in February 2004 and following a $1.0 million semi-annual payment for the six month period ended June 30, 2004 that took place in August 2004. As a result of the August 2004 payment, the Senior Debenture was retired. As noted above, the remaining $3.8 million of principal owing on the Debentures was repaid on December 30, 2004 concurrent with the closing of the Rights Offering.

CONTRACTUAL OBLIGATIONS AS AT DECEMBER 31, 2004

Upon closing of the Right Offering, Destiny repaid all remaining long-term debt, and thus at the December 31, 2004 year end its' only future contractual payment obligations are in the form of operating leases on premises and equipment. The Company has no other "off balance sheet" contractual obligations.

	Payments Due by Future Year				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Operating Leases	$ 2,068,000	$ 536,000	$ 679,000	$ 570,000	$ 283,000

SHAREHOLDERS' EQUITY

The shareholders' deficiency as at December 31, 2003 of $0.7 million has been eliminated with the Company now reporting shareholders' equity of $7.8 million, due to 2004 net income of $1.3 million, and $7.3 million additional share capital raised (less costs of $0.2 million) pursuant to the Rights Offering.

On May 5, 2004, at the Annual General Meeting, the shareholders passed a special resolution approving the reduction of the stated capital of the Company's common shares by $8.4 million, being the entire amount thereof, and offsetting the amount against the Company's deficit.

On November 16, 2004, at a Special Meeting, the shareholders passed a special resolution approving the consolidation (reverse split) of the shares on a basis of up to 20 to 1 as determined by the Board of Directors. On March 17, 2005, the Board of Directors resolved to effect the consolidation effective April 1, 2005 on a 20 for 1 basis.

RESTRUCTURE AND DISCONTINUED OPERATIONS

With the Company burdened by high debt levels and with a $10 million debenture maturing on July 2, 2004, in 2003 Destiny determined it was in the best interests of shareholders for the Company to reduce debt through the sale of non-core businesses and to restructure the remaining debt.

During 2003 the Company initiated a number of major transactions to achieve this debt reduction objective. These transactions, which saw the Company dispose of two of its three business segments, pay down debt and restructure its remaining debt have significantly altered the composition of the Company as outlined below.

The reorganization process that had been ongoing for three years was completed in February 2004 with the collection of the proceeds from the sale of the last divestiture, with the issuance of $3.55 million of new term debt and the associated use of the majority of the proceeds to repay other secured term debts.

In 2003 the Company initiated a number of major transactions to achieve its debt reduction objective. These transactions, the last of which culminated in the first quarter of 2004, saw the Company dispose of two of its three business segments, pay down debt and restructure its remaining debt, and significantly alter the composition of the Company as outlined below.

- The Company's continuing operations now consists of one business segment, being Seismic Front-End Services, which is comprised of seismic survey and mapping, seismic line clearing and shot-hole drilling.
- For financial statement reporting, the 2003 results of operations and the financial position of Battle River Oilfield Construction, McConnell Welding and Construction, Big Foot Metal Systems and Team Pipeline have been presented in the consolidated financial statements as discontinued operations.

SELECTED FINANCIAL INFORMATION OF MAJOR 2003 DISPOSITION TRANSACTIONS

(all amounts in $millions)	Proceeds on Sale	Gain (loss) on Sale	Term Loan Proceeds	Long-term Debt Repaid	Debenture repayment	2003 Revenue (to date of disposition)
Business Dispositions						
Battle River Oilfield Construction	$4.4	$0.5		$0.6 [1]	$3.0 [1]	$11.6
McConnell Welding & Construction	$2.0	$(0.2)		$0.2		$8.3
Big Foot Metal Systems	$0.4	$0.0		$0.0		$1.0
Team Pipeline	$1.3	$0.3		$0.5		$5.0
New Financing						
Term loan[1]			$3.5	$0.3	$2.0	
	$8.1	$0.6	$3.5	$1.5	$5.0	$25.9

[1] Please note that these transactions occured subsequent to December 31, 2003

The effects of these transactions was as follows:

- During the year ended December 31, 2003, the Company reported an overall gain on the dispositions of $0.6 million.
- Total gross sale and term loan proceeds were approximately $11.6 million. The proceeds were utilized as follows:
  - $3.1 million was applied to the reduction of long-term debt, being term debt and equipment loans.
  - $5.0 million was applied against the Senior Debenture. This reduction in amount outstanding on the Senior Debentures provided the opportunity for the Company to negotiate an extension on the maturity date of the Successor Debentures from July 2, 2004 to July 2, 2008.
  - The balance, after deducting costs and other adjustments, was used for capital expenditures and to supplement working capital.
- On a combined basis the businesses sold had 2003 revenue (to the dates of disposition) of $25.9 million (2002 - $27.2 million) or 48% (2002 – 54%) of the Company's total revenue.
- In 2004, the Company recognized additional income from discontinued operations of $0.4 million, which was primarily from a recovery of excess insurance premiums paid in 2003, and for a partial recovery of a customer accounts receivable which had been written off as a bad debt in 2003.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. The estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's recording of financial condition and results. Management believes the critical accounting estimates for the Company are as follows:

Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. The Company evaluates the carrying value of capital assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognizes an impairment charge when it is probable that estimated future cash flows of the underlying assets will be less than the carrying value of the assets.

Judgment is required in determining the useful life of capital assets and the appropriate method of amortization. Factors considered in estimating the useful lives of capital assets include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time and effectiveness of the Company's maintenance program.

The Company's investment in capital assets results in amortization expense being a significant operating cost to the Company and any misjudgment in estimating the useful life of the equipment could result in a misstatement of financial results.

Allowance for Doubtful Accounts

Accounts receivable is net of an allowance of $0.1 million which has been recorded ($0.1 million – December 31, 2003) in the consolidated financial statements, reflecting the amount of the balance for which collection is considered doubtful. In assessing the ability to collect accounts receivable, management reviews individual customer receivable balances to determine accounts on which collection is not certain. For these accounts, an allowance for doubtful accounts is established. The amount of the allowance is based upon a review of the customer's credit information, past payment practices and overall financial strength of the customer.

Accrued liabilities

Accrued liabilities normally include managements estimates of expected future costs to be incurred arising out of current year operating activity, including costs for repairs and maintenance and project completion.

Business Risks

Destiny is subject to the risks and variables inherent in the oilfield services industry. Demand for the Company's products and services depends on the exploration, development and production activities of energy companies. These activities are directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be accurately predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels. The risks associated with external competition are minimized by concentrating Company activities in areas where it has demonstrated technical and operational advantages and by employing highly competent professional staff. Environmental standards and regulations are continually becoming more stringent in this industry and Destiny is committed to maintaining its high standards. Destiny also mitigates business risks by establishing strategic alliances with reputable partners, developing new technologies and methodologies as well as investigating new business opportunities.

The risks inherent in the oilfield services industry impact the Company's ability to meet its financial covenants on its revolving, bank operating loan facility (of which $nil was utilized at December 31, 2004). Accordingly, the Company may become in violation of its covenants on the bank facility, which might result in repayment being demanded.

Outlook

Following its reorganization and Rights Offering, the Company believes it has adequate working capital, capitalization and access to capital. Management believes the Company has a cost structure that has sufficient variability as to be able to adapt to the volatility of its industry. The Company has experienced management, at all levels of sales, operations and administration who are motivated to achieve success in both the short- and long-term. The Company provides services principally in connection with the exploration for a commodity, natural gas, that is escalating in value and is plentiful in the areas in which the Company operates.

The Company is encouraged by the indications of demand for its services. The Rights Offering was undertaken as a means of providing equity to retire term debt, thereby eliminating interest and debt repayment requirements, and creating free cash for potential distribution to shareholders by way of dividends.

Destiny will continue to review expansion opportunities, both organic and by acquisition. These involve, in each case, the requirement for capital expenditures beyond the normal course for the Company. Destiny may pursue any or all of these opportunities, and others that may present themselves. In doing so the Company may incur term debt, issue equity, retain cash that might otherwise be paid as dividends or any combination of the foregoing. The positive impact of the Rights Offering, to the extent it resulted in the elimination of all long-term debt from the Company's balance sheet, may be limited in time.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Destiny Resource Services Corp.

The consolidated financial statements and other financial information contained in this Annual Report have been prepared by management. Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with Canadian generally accepted accounting principles and reflect amounts based upon management's informed estimates and judgments, as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse, and financial records are properly maintained to provide reliable financial information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. This Committee, consisting of a majority of non-management directors, meets periodically with management and the Company's external auditors to discuss audit examinations, internal control, accounting policy and financial reporting matters.

The Audit Committee also reviews with management the annual and quarterly consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Company's shareholders. The shareholders have appointed Ernst & Young LLP as the external auditors of the Company to provide an independent professional opinion on the annual consolidated financial statements. The auditors' report to the shareholders is presented in the Annual Report.

Bruce R. Libin, Q.C.
Executive Chairman and Chief Executive Officer

Calgary, Alberta
March 17, 2005

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Destiny Resource Services Corp.

We have audited the consolidated balance sheets of **Destiny Resource Services Corp.** as at December 31, 2004 and 2003, and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 17, 2005

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31	**2004**	2003
	$	$
ASSETS *[note 4]*		
CURRENT		
Cash and cash equivalents	1,198,004	---
Accounts receivable *[note 4]*	4,261,300	5,672,894
Inventory *[note 4]*	561,888	459,160
Prepaid expenses	325,459	317,084
Current assets of discontinued operations *[note 9]*	---	5,313,650
	6,346,651	11,762,788
Property and equipment *[note 3]*	5,044,266	5,147,120
	11,390,917	16,909,908
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness *[note 4]*	---	3,077,302
Accounts payable and accrued liabilities	3,483,824	3,651,093
Income taxes payable	61,973	68,950
Current portion of long-term debt *[note 5]*	---	783,942
Current liabilities of discontinued operations	---	194,424
Current portion of debentures *[note 6]*	---	3,000,000
	3,545,797	10,775,711
Debentures *[note 6]*	---	6,833,884
Commitments and contingencies *[note 16]*		
Shareholders' equity (deficiency)		
Share capital *[note 7]*	7,198,140	8,370,998
Retained earnings (deficit)	646,980	(9,070,685)
	7,845,120	(699,687)
	11,390,917	16,909,908

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Year ended December 31	**2004**	2003
	$	$
Revenue	33,629,852	28,057,075
Direct expenses	29,544,635	24,797,972
Gross margin	4,085,217	3,259,103
Other expenses (income):		
General and administrative	1,214,811	1,053,970
Amortization of property and equipment *[note 3]*	1,249,000	1,282,804
(Gain) on disposal of property and equipment	(100,345)	(118,930)
Interest *[note 10]*	772,717	2,371,719
Other expenses (income) *[note 11]*	(5,914)	(190,589)
	3,130,269	4,398,974
Income (loss) from continuing operations before income	954,948	(1,139,871)
Income taxes *[note 12]*		
Current	12,000	59,650
Income (loss) from continuing operations	942,948	(1,199,521)
Income from discontinued operations,	403,719	1,073,798
Net income (loss) for the year	1,346,667	(125,723)
Deficit, beginning of year	(9,070,685)	(8,944,962)
Elimination of deficit against share capital *[note 7]*	8,370,998	---
Retained earnings (deficit), end of year	646,980	(9,070,685)
Per share amounts *[note 7(b)]*		

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31	**2004**	2003
	$	$
CASH FLOWS PROVIDED BY (USED IN)		
Operating activities:		
Net income (loss) from continuing operations	942,948	(1,199,521)
Items not involving cash:		
Amortization of property and equipment	1,249,000	1,282,804
Amortization of deferred charges	45,000	782,693
(Gain) on disposal of property and equipment	(100,345)	(118,930)
Cash flow from operations	2,136,603	747,046
Net change in non-cash working capital *[note 14]*	1,287,813	(1,737,482)
	3,424,416	(990,436)
Financing activities:		
Increase (decrease) in bank indebtedness	(3,077,302)	2,272,306
Issue of long-term debt	3,550,000	---
Repayment of long-term debt	(4,333,942)	(4,651,266)
Repayment of debentures	(6,026,000)	(166,116)
Increase in deferred charges	(45,000)	(84,195)
Rights Offering, net of costs *[note 8]*	3,228,688	---
	(6,703,556)	(2,629,271)
Investing activities:		
Purchase of property and equipment	(1,706,544)	(1,074,631)
Proceeds on sale of property and equipment	660,743	176,782
Cash flow from discontinued operations *[note 9]*	5,522,945	4,517,556
	4,477,144	3,619,707
Increase in cash and cash equivalents	1,198,004	---
Cash and cash equivalents, beginning of year	---	---
Cash and cash equivalents, end of year	1,198,004	---

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Destiny Resource Services Corp. ("the Company") provides Seismic Front-End Services comprised of seismic survey and mapping, seismic line clearing and shot-hole drilling to energy explorers and producers and to seismic acquisition companies.

Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventory

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

Property and equipment

Property and equipment are recorded at cost. Amortization is generally applied on a declining balance basis to amortize the cost of the property and equipment over their estimated economic useful lives as follows:

Buildings and leasehold improvements	5% to 20%
Seismic drills and accessories	25%
Tractors and heavy equipment	15% to 25%
Equipment and tools	10% to 30%
Office and computer equipment	20% to 30%
Automotive and tracked vehicles	10% to 50%

When property and equipment are sold or scrapped, the cost of the asset and the related accumulated amortization are removed from the accounts and any resulting gain or loss on disposal is reflected in the Consolidated Statement of Operations.

Revenue recognition

Revenue on contracts is recognized at the time the services are provided.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change substantively occurs.

Foreign currency translation

Monetary assets and liabilities which are denominated in a foreign currency are translated at year-end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses are reflected in other income or expense.

Per share amounts

The Company utilizes the treasury stock method in the determination of diluted earnings (loss) per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that the proceeds arising from the exercise of outstanding in the money options are used to purchase common shares of the Company at their average market price for the period.

Leases

Leases that transfer substantially all the benefits and inherent risks of ownership of the property leased are recorded by the Company as a capital lease at the inception of the lease. The present values of the future payments under such leases are recorded as property and equipment (and amortized over their estimated useful lives) and related long-term debt. All other leases are classified as operating leases under which lease payments are recorded as expenses in the period in which they are incurred.

Measurement uncertainty

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Significant estimates are used in determining such items as allowance for doubtful accounts, provision for inventory obsolescence, useful lives and recoverable values of property and equipment and accruals for repair and maintenance. Actual results could differ significantly from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Stock-based compensation expense

The Company has in place a stock option plan (see note 7(a)), whereby options to purchase common shares of the Company may be granted to directors, officers, employees and consultants at current market prices. Compensation costs are recognized for all options granted or modified on or after January 1, 2003 under the fair value method, whereby the cost of the option is charged to earnings over the vesting period of the option, with an offsetting amount recorded to contributed surplus. The fair value is determined based on the quoted market price of the Company's stock and other assumptions in effect at the date of granting using a Black-Scholes Option Pricing Model.

The Company may also grant to selected executives and other key employees stock appreciation rights ("SARs") and restricted stock units ("RSUs") which are settled in cash. The costs associated with any such grants are measured (i) in the case of SARs, as the amount by which the quoted market value of the enterprise's stock covered by the grant exceeds the market price of the underlying stock, and (ii) in the case of RSUs, in relation to the average quoted market price of the underlying stock over the thirty day period prior to the grant date. Changes, either increases or decreases, in the quoted market value of those stocks between the date of grant and the measurement date result in a change in the measure of compensation for the rights.

For SARs there was no impact on the 2004 or 2003 consolidated financial statements, and for outstanding RSUs, general & administrative expense includes $42,000 RSU expense recognized in 2004 (2003 - $nil).

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to the impairment of long-lived assets held for use, specifically property and equipment. A long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. These recommendations were applied prospectively, with no adjustments reported in the financial statements presented.

3. PROPERTY AND EQUIPMENT

		2004	
	Cost	Accumulated Amortization	Net Book Value
Buildings and leasehold improvements	$ 1,253,467	$ 366,116	$ 887,351
Seismic drills and accessories	3,649,802	3,196,738	453,064
Tractors and heavy equipment	2,130,912	1,663,639	467,273
Equipment and tools	2,798,780	1,469,130	1,329,650
Office and computer equipment	1,640,869	1,452,946	187,923
Automotive and tracked vehicles	5,567,891	4,026,886	1,541,005
Land	178,000	---	178,000
	$ 17,219,721	$ 12,175,455	$ 5,044,266

		2003	
	Cost	Accumulated Amortization	Net Book Value
Buildings and leasehold improvements	$ 1,819,697	$ 636,527	$ 1,183,170
Seismic drills and accessories	3,712,165	3,121,430	590,735
Tractors and heavy equipment	2,591,190	1,903,021	688,169
Equipment and tools	2,361,493	1,863,271	498,222
Office and computer equipment	1,545,213	1,375,282	169,931
Automotive and tracked vehicles	5,907,630	4,068,737	1,838,893
Land	178,000	---	178,000
	$ 18,115,388	$ 12,968,268	$ 5,147,120

Included in the above totals as at December 31, 2003 are amounts related to property and equipment which were financed under equipment purchase contracts (all of which were settled in 2004 – see note 5(iii)) as follows:

	Cost	Accumulated Amortization	Net Book Value
Automotive, tractors and heavy equipment	$ 919,410	$ 590,245	$ 329,165

Amortization expense is comprised of:	**2004**	2003
Amortization of property and equipment	$ 1,249,000	$ 1,231,804
Write-down of carrying value of property and equipment	---	51,000
	$ 1,249,000	$ 1,282,804

Additions to property and equipment reported in the Statement of Cash Flows excludes non-cash costs of $nil (2003 - $37,667) which were financed under equipment purchase contracts.

4. BANK INDEBTEDNESS

At December 31, 2003, the Company had a $12,000,000 operating loan facility, with balances outstanding repayable on demand and bearing interest at prime plus 1.25%. The average effective rate for 2003 was 5.9%. This credit facility expired in February 2004 and was replaced with a revolving demand operating loan credit facility with a new lender, renewable annually, to a maximum of $5,000,000, and bearing interest at prime plus 1.5%. The facility is secured by a first charge on accounts receivable and inventory and a charge on all other assets of the Company.

The Company's ability to draw on the facility is primarily dependent upon its accounts receivable that are less than 90 days outstanding. Letters of guarantee totaling $80,000 (2003 - $280,000) were outstanding at December 31 under the operating loan facility.

5. LONG-TERM DEBT

	2004	2003
Term loan 1, due February 2012 (i)	---	$ 472,088
Equipment purchase contracts (iii)	---	311,854
	---	783,942
Less current portion	---	783,942
	---	$ ---

(i) Term loan 1 bore interest at the lenders floating base rate plus 3.25%, which for 2003 averaged 6.83%. The Company had provided a first charge on specific property and equipment and a floating charge on all other assets as collateral for this term loan, which was repaid in February 2004 (note 9).

(ii) In February 2004, the Company entered into a $3,550,000 term loan 2 facility, maturing in 2007, and bearing interest at the lender's base rate plus 3.25%. The Company provided a first charge on specific property and equipment and a floating charge on all other assets as collateral for this term loan. The loan proceeds received were used as follows:

Repayment of equipment purchase contracts	$ 313,994
Repayment of debentures (note 6)	2,000,000
Supplement working capital	1,236,006
	$ 3,550,000

This 2004 term loan facility required minimum annual repayments of $910,000, and was repaid in full on December 31, 2004 following closing of the Rights Offering (note 8).

(iii) Equipment purchase contracts bore interest at varying fixed rates which averaged 7.94% as at December 31, 2003 and matured in the years 2004 to 2006. Specific items of equipment and vehicles were pledged as collateral for the loans. The balances outstanding as at December 31, 2003 were repaid in full in February 2004 from the proceeds on a new term loan issued (see (ii)).

6. DEBENTURES

In 1999 the Company issued $10,000,00 of 8% five year subordinated debentures to First Reserve Fund VIII, L.P. ("First Reserve") maturing July 2, 2004 and secured by a floating charge on all assets.

On September 3, 2003, the Company and First Reserve split the $10,000,000 debentures into a senior debenture with a principal amount of $5,999,999 and a junior debenture with a principal amount of $4,000,001. On September 4, 2003, First Reserve sold the debentures and associated rights, 29,631,331 common shares (being 56.2% of the total issued) of the Company and $834,000 of accrued debenture interest receivable to Destiny Resource Investment L.P. ("DRILP"). Total consideration paid by DRILP was $5,950,000 and the assumption of any obligations relating to the debentures. The Executive Chairman and Chief Executive Officer of the Company is an investor in DRILP.

In December, 2003, the Company and DRILP agreed: (i) to extend the maturity of the debentures to July 2, 2008; (ii) to repay $2,000,000 from the proceeds of the new term loan (note 5(ii)) and $3,000,000 from the proceeds of the sale of the Battle River heavy equipment (note 9) as retirement of principal on the debentures; and (iii) to initiate semi-annual principal payments based on a formula that incorporated cash flow from operations, proceeds of disposition of assets, capital expenditures and term debt principal payments. Due to their uncertainty, no provision was made at December 31, 2003 for any such additional semi-annual principal payments that may have become due in 2004. In August 2004, a repayment of $1,026,000 was made relating to the formula for the first six months of 2004. The debentures were repaid by December 31, 2004 as follows:

Balance as at December 31, 2002	$ 10,000,000
Repayments in 2003	(166,116)
Balance as at December 31, 2003	9,833,884
Repayments in 2004 from the proceeds of:	
Sale of the assets of BROC (note 9)	(3,000,000)
Long-term portion as at December 31, 2004	6,833,884
Term loan 2 (note 5(ii))	(2,000,000)
Semi-annual repayment, paid in August 2004	(1,026,000)
Repayment pursuant to Rights Offering (note 8)	(3,807,884)
Balance as at December 31, 2004	$ ---

7. SHARE CAPITAL

	# issued	
Authorized:		
Unlimited number of common, first preferred and second preferred shares		
Issued - Common shares:		
December 31, 2002 and 2003 (i)	52,711,309	$ 8,370,998
Elimination of deficit against share capital (ii)	---	(8,370,998)
Issued pursuant to Rights Offering (note 8)	52,711,309	7,379,583
Costs related to Rights Offering	---	(181,443)
December 31, 2004	105,422,618	$ 7,198,140

(i) As part of the Rights Offering discussed in note 8, the Company's shareholders approved the Board of Directors effecting a reverse stock split on the basis of up to 20 (old) for each 1 (new) common share. As the Board of Directors has not yet finalized the exchange ratio, all common share related amounts within these financial statements, including per share amounts, number of shares outstanding, and number of options outstanding have not been adjusted to reflect this proposed reverse stock split which is to occur in 2005.

(ii) At the Annual General Meeting on May 5, 2004, the shareholders of the Company passed a special resolution approving the reduction of the stated capital of the Company's common shares by $8,370,998, being the stated capital as at December 31, 2003, and offsetting this amount against the Company's deficit.

(a) Stock Options

The Company has a stock option ("option") plan under which the Company may grant to directors, officers, management and employees options to purchase up to 4,998,000 common shares. The exercise price of each option equals the closing price of the Company's stock on the last trading date preceding the date of grant. An option's term can vary as specified in the option agreement, and generally is 7 years from the date of grant (subject to early exercise or termination), with vesting occurring over a period of 4 years.

The fair value method of accounting for stock options resulted in a stock option expense of $nil being recorded for 2004 and 2003 as no options were granted during the periods. Compensation expense related to stock options which were granted prior to 2003 are accounted for on a pro-forma basis, and pro-forma compensation expense would be increased by $20,000 (2003 - $20,000). A summary of the status of the stock option plan is as follows:

	2004		2003	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price$
Outstanding at beginning of year	2,217,500	$ 0.42	3,157,500	$ 0.39
Granted	---	---	---	---
Exercised	---	---	---	---
Cancelled	(397,500)	(0.78)	(940,000)	(0.36)
Outstanding at end of year	1,820,000	0.32	2,217,500	0.40
Options exercisable at end of year	1,733,000	$ 0.32	1,811,500	$ 0.42

Range of Prices $	Number of Outstanding Options	Weighted Average Exercise Price$	Weighted Average Years to Expiry	Number of Options Exercisable	Weighted Average Exercise Price Of Exercisable Options$
0.20 – 0.37	1,710,000	$ 0.31	4.2	1,623,000	$ 0.31
0.50 – 0.65	110,000	0.51	2.1	110,000	0.51
2004 total	1,820,000	0.32		1,733,000	0.32
0.20 – 0.37	1,917,500	0.31	4.2	1,533,500	0.31
0.50 – 0.65	170,000	0.51	2.1	148,000	0.51
1.00 – 2.50	130,000	1.61	1.3	130,000	1.62
2003 total	2,217,500	$ 0.40		1,811,500	$ 0.42

(b) Earnings (loss) per share amounts

	2004	2003
Basic and diluted per common share amounts:		
Income (loss) from continuing operations per common share	$ 0.02	$ (0.02)
Income from discontinued operations per common share	0.01	0.02
Net income per common share	$ 0.03	$ 0.00

The numerators and denominators used in the calculation of each of the above noted basic and diluted per share amounts are as follows:

	2004	2003
Numerators:		
Income (loss) from continuing operations	$ 942,948	$ (1,199,521)
Income from discontinued operations	403,719	1,073,798
Net income (loss) for the year	$ 1,346,667	$ (125,723)
Denominators:		
Number of shares outstanding at beginning of year	52,711,309	52,711,309
Weighted average number of shares issued during the year	144,415	---
Weighted average number of shares outstanding for the year – basic and diluted	52,855,724	52,711,309

Excluded from the diluted earnings per share amount are 1,820,000 (2003 – 2,217,500) “out-of-the money” options the effect of which was anti-dilutive.

8. RIGHTS OFFERING

On November 16, 2004, shareholder approval was granted for the Company to raise capital by way of an offering of up to 52,711,309 rights (1 right per common share held) to shareholders (the “Rights Offering”) and to use the funds from the subsequent exercise of the rights to repay all long-term debt. Each right entitled the holder to acquire 1 common share at $0.14 per share. Any common shares not taken up on the exercise of rights were made available (on a pro-rata basis) to those who exercised rights on an additional subscription privilege basis. In connection with the Rights Offering:

i. shareholders of the Company, excluding DRILP and its associates, voted to approve the Rights Offering;

ii. DRILP held 56.21% of the common shares of the Company, and committed to exercise its rights in full (a commitment of $4.15 million) and to exercise, to the full extent available to it, the additional subscription privilege (a potential commitment of up to $3.23 million);

iii. the Company owed DRILP $3,807,884 principal on the Debentures (see note 6), plus interest owing of $161,568, both of which were repaid as part of the exercise of rights by DRILP. No formal valuation of the Debentures was obtained; the Company was of the view that the Debentures had a fair value not less than the principal amount owing thereon;

iv. shareholders approved a reverse stock split of the maximum 105,422,618 common shares which were to become outstanding following the Rights Offering on the basis of up to 20 (old) for each 1 (new) common share.

On December 30, 2004, the rights offering closed, and all rights were exercised, resulting in gross proceeds to the Company of $7,379,583 (including cash of $3,410,131) and the issuance of an additional 52,711,309 common shares as follows:

	DRILP	others	total
# of rights exercised by	35,821,350	16,889,959	52,711,309
Proceeds to the Company:			
Cash	$ 1,045,537	$ 2,364,594	$ 3,410,131
Retirement of debentures	3,807,884	---	3,807,884
Retirement of interest owing on debentures	161,568	---	161,568
	$ 5,014,989	$ 2,364,594	$ 7,379,583
Proceeds used for repayment of:			
Debentures (see note 6)	$ 3,807,884	---	$ 3,807,884
Interest owing on debentures	161,568	---	161,568
Term loan 2 (see note 5(ii))	---	2,346,487	2,346,487
Increase in working capital	1,045,537	18,107	1,063,644
	$ 5,014,989	$ 2,364,594	$ 7,379,583

9. DISCONTINUED OPERATIONS

The Company provides services to the oil and gas exploration industry in the Western Canadian Sedimentary Basin and the Canadian Arctic. Prior to 2003, the Company had reported segmented information with its business segments being defined as Front-End Services, Surface Preparation and Post-Drilling Construction.

From December 31, 2003 the Company has only one continuing business segment, and accordingly segmented information has not been reported. The businesses that comprised the former Surface Preparation and Post-Drilling Construction business segments have been classified as discontinued operations.

In 2003 the Company restructured its operations, and disposed of the operating assets which in total comprised two of its three former business segments. The 2003 comparative financial statements report the results of operations (including the resultant gain or loss on disposal) and the financial position of the business units sold as discontinued operations. The individual disposals are summarized as follows:

i. In September 2003 the Company sold the operating assets net of certain related liabilities of its Post-Drilling Construction businesses by way of transactions with three separate purchasers of the following business units, for total gross proceeds of approximately $2,345,000:

- the Big Foot Metal Systems division;
- the McConnell Welding & Construction division ("MWC") and:
- the land and building utilized by MWC.

ii. In October 2003 the Company agreed to sell the operating assets of its Surface Preparation business segment, which operated as Battle River Oilfield Construction ("BROC"), to the general manager of the business. The sale was comprised of two components, the first being the sale (which closed in November 2003) of the operating business, land and building and the assumption of certain rights and obligations and the second (which closed in January 2004) being the sale of heavy equipment. Total gross proceeds, before working capital adjustments, for the two transactions were approximately $4,443,000. Accounts receivable of discontinued operations as at December 31, 2003 includes proceeds which were received by the Company in February 2004 and used as follows:

Repayment of debentures (note 6)	$ 3,000,000
Repayment of equipment purchase contracts (note 5(iii))	351,311
Repayment of term loan 1 (note 5(i))	450,735
	3,802,046
Increase in working capital	170,575
Total proceeds receivable at December 31, 2003	$ 3,972,621

iii. The operating assets of the Team Pipeline division ("Team"), which represented the remainder of the Post-Drilling Construction segment, were sold for net proceeds of $1,259,253 at a public auction in December 2003.

Selected 2003 financial information of the discontinued operations is as follows:

	Team	BROC	**Total**
Current assets			
Accounts receivable	$ 1,179,752	$ 3,976,714	$ 5,156,466
Prepaid expenses	25,669	131,515	157,184
	$ 1,205,421	$ 4,108,229	$ 5,313,650

The 2003 revenues to the dates of disposition, and the total income (loss) from discontinued operations before tax (including the resultant gain (loss) on disposals as noted below) were as follows:

	Revenue	**Gain (loss) on disposal**	**Income (loss) before tax**
Bigfoot Metal Systems	$ 1,027,044	$ 69,043	$ (12,526)
McConnell Welding & Construction	8,281,653	(212,260)	572,181
Team Pipeline	5,012,079	282,134	309,272
Battle River Oilfield Construction	11,619,659	467,406	204,871
	$ 25,940,435	$ 606,323	$ 1,073,798

For the year ended December 31, 2003 there are no income taxes in respect to discontinued operations as the Company had non-capital tax loss carry forwards available, the benefit of which has not been fully recognized.

For 2004, income from discontinued operations of $403,719 consists primarily of a recovery of 2003 over-payments of insurance premiums, and a recovery of a portion of accounts receivable which had been written off in 2003.

10. INTEREST EXPENSE

	2004	2003
Long-term debt:		
Debenture interest at 8%	$ 390,996	$ 797,014
Debenture other	18,219	121,430
Term loans	240,758	194,172
Equipment purchase contracts	5,330	59,762
	655,303	1,172,378
Short-term bank indebtedness and other	72,414	416,660
Amortization of deferred charges	45,000	782,681
	$ 772,717	$ 2,371,719

Deferred charges represented the unamortized costs associated with the issuance of long-term debt facilities and were amortized on a straight-line basis over the remaining term of the financings.

11. OTHER EXPENSES (INCOME)

	2004	2003
Gain on sale of investments and other assets	$ ---	$ (189,086)
Investment and other	(5,914)	(1,503)
	$ (5,914)	$ (190,589)

12. INCOME TAXES

Income tax expense (recovery) varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate for the following differences:

	2004	2003
Corporate tax rate	35.12%	36.75%
Provision for income taxes (recovery) at combined rate	$ 482,256	$ (24,281)
Increase (decrease) in income taxes from:		
Non-recognition of future tax assets	---	111,888
Other non-deductible (non-taxable) portion of other expense / (income)	14,144	(87,607)
Benefit of previously unrecognized non-capital losses carried forward	(496,400)	---
Large corporations tax and other	12,000	59,650
	$ 12,000	$ 59,650

Components of future income taxes

Future income taxes reflect the net tax effect of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The significant components of the Company' s future income tax assets (liabilities) are as follows:

	2004	2003
Differences between tax base and reported amounts of depreciable assets	$ (998,000)	$ (633,080)
Non-capital loss carry-forwards	2,269,000	3,818,424
Deferred financing costs and other	225,000	317,650
Deferred partnership income	(1,175,000)	(1,806,418)
Valuation allowance on net operating loss carry-forwards	(321,000)	(1,696,576)
Future tax asset (liability)	$ ---	$ ---

As at December 31, 2004 the Company has available for Canadian income tax purposes non-capital losses carried forward, the benefit of which has been only partially recognized in these financial statements, and which expire as follows:

2008	$ 5,261,000
2009	1,915,000
	$ 7,176,000

13. TRANSACTIONS WITH SHAREHOLDERS AND RELATED PARTIES

In addition to the transactions in 2004 and 2003 with the debenture holders, First Reserve and DRILP (see note 6), in 2003 approximately $550,000 was charged to the Company under the terms of equipment rental agreements with certain shareholders and employees associated with one of the Company's former business segments which was sold in 2003. These transactions were in the normal course of operations and are recorded at their exchange amount.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	2004	2003
Accounts receivable	$ 1,411,594	$ (2,271,934)
Inventory	(102,728)	132,999
Prepaid expenses	(8,375)	3,250
Accounts payable and accrued liabilities	(5,701)	393,857
Income taxes payable	(6,977)	4,346
Net source (use) of funds	$ 1,287,813	$ (1,737,482)
Supplemental information:		
Cash interest paid during the year	$ 611,149	$ 2,005,135
Cash taxes paid during the year	$ 14,500	$ 55,304

15. FINANCIAL INSTRUMENTS

a) Credit risk

The Company's sales are to customers in the oil and gas industry, which results in a concentration of credit risk. The Company generally extends unsecured credit to these customers, and therefore the collection of receivables may be affected by changes in economic or other conditions and may accordingly affect the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Company extends credit. The Company has not previously experienced any material credit losses on the collection of accounts receivable related to its continuing operations. Income from discontinued operations for 2003 is net of bad debt expense of approximately $983,000 related to a single large account receivable which became uncollectible during 2003. In 2004, a recovery of $275,675 of this total was recorded.

After excluding the accounts receivable and revenue related to the discontinued operations, approximately 67% of accounts receivable at December 31, 2004 (2003 – 9%) and 46% (2003 – 49%) of revenues for the year were represented by sales to one customer.

(b) Interest rate risk

The Company is exposed to interest rate risk related to interest expense on any amounts drawn on its floating rate debt facilities.

(c) Fair value of financial assets and liabilities

The Company has financial instruments consisting of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, debentures and long-term debt. The carrying value of these financial instruments approximates fair value unless otherwise stated. At December 31, 2003, the estimated fair value of the debentures based on prevailing interest rates for debt instruments of a similar nature and term was approximately $9,834,000.

16. COMMITMENTS AND CONTINGENCIES

(a) Operating leases

The Company's minimum future annual payments required under operating lease commitments for premises, vehicles and equipment are approximately as follows:

2005	$ 536,000
2006	383,000
2007	296,000
2008	285,000
2009	285,000
2010	283,000
	$ 2,068,000

(b) Litigation

The Company, through the performance of its service obligations, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury or operations not considered to be complete. The Company maintains a level of insurance coverage considered appropriate by management for matters for which insurance coverage can be maintained.

In September 2003 a statement of claim was filed against the Company and two other companies seeking payment for damages and loss of income totaling $10,000,000. The claim alleges that faulty workmanship (by one the Company's now discontinued operations and two other companies named in the claim) led to significant damage at a major gas plant expansion project.

In September 2004 a subsequent related claim alleging faulty workmanship was filed against the Company and two other companies seeking payment of damages and loss of income totaling $750,000.

The Company believes that both of the above noted claims are completely without merit, and they have been referred to counsel for the Company's insurance provider and will be vigorously defended. As neither the outcome nor the final amount of the claims can be determined, no provision for loss has been made in these financial statements.

17. SUBSEQUENT EVENT

On January 27, 2005, the Company agreed to acquire, effective January 1, 2005, the business, assets and operations of Kodiak Nav Solutions Ltd. ("Kodiak") for $1,975,575, comprised of:

Cash	$ 1,000,000
5,529,000 common shares of the Company, at $0.175 per share	967,575
Total consideration	$ 1,975,575

Kodiak is a privately owned business that provides navigation, positioning and asset management technology to clients in the North American seismic services industry.

CORPORATE INFORMATION

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Independent Businessman
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Officers

Bruce Libin
Executive Chairman & Chief Executive Officer

Jim Holt
Vice-President, Drilling

Warren Plue
Vice-President, Survey & Line Clearing

Steve Matthews
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